© Entire contents copyright 1989 by Crain Communications Inc. All rights reserved.

PENSIONS & September 18, 1989

Investment Age

the newspaper of corporate and institutional investing $5 an issue - $110 a year

Oil spill rallies funds

3 seek support for environmental code

By Marcia Parker

Three activist public pension funds will be soliciting support for their newest initiative: a set of principles to guide corporate conduct on the environment.

Trustees of the $35.5 billion New York City Retirement Systems, the $47 billion California Public Employees' Retirement System and the $24.7 billion California Teachers' Retirement System endorsed the 10 Valdez Principles drafted by the Coalition for Environmentally Responsible Economies.

The guidelines are named after the Exxon Valdez, the tanker that spilled millions of gallons of oil off the Alaska coast earlier this year. They are patterned after the Statement of Principles, which guide corporate conduct in South Africa, and the MacBride Principles, which govern corporate behavior in Northern Ireland.

Many companies adopted the South Africa and Northern Ireland codes of conduct on their own. Many institutional investors and individuals chose to invest only in companies that adhered to the Statement of Principles and MacBride Principles. The hope now is that companies and investors will do the same with the Valdez Principles and that the code will serve as a worldwide model for responsible corporate behavior on environmental matters.

CERES is a new consortium of bankers, brokers, analysts and institutional investors. Among its members are the New York State comptroller's office, which oversees the $37.9 billion New York State & Local Retirement Systems; Interfaith Center on Corporate Responsibility, the New York-based church group; Franklin Research & Development Corp., a Boston money manager that specializes in socially responsible investing; the Sierra Club; and the National Audubon Society.

CERES is a project of the Social Investment Forum, a national trade association of 325 fund managers and investment advisers dedicated to socially responsible investing.

"The Valdez Principles offer an unprecedented opportunity for corporate America to actively demonstrate to investors and to consumers their commitment to a clean and healthy environment," Gray Davis, California's comptroller and trustee of the state's public employees' and teachers' pension funds, said at a New York press conference.

In an interview with *Pensions & Investment Age*, Mr. Davis said he would propose the conduct code to California's myriad retirement systems and seek the support of the state Legislature and the Council of Institutional Investors when it meets in November.

"I believe California and other state pension funds should adopt these standards in their corporate governance-voting policies," he said.

During the past few years, institutional investors, led by a few activist public pension funds, have begun to flex their muscles through the proxy ballot and other channels on such issues as takeovers, proxy voting procedures and investing in South Africa and Northern Ireland. The push to

Continued on page 57

AP Photo

Oil spill damage from an Exxon tanker inspired the creation of the Valdez Principles, an environmental code of conduct for companies endorsed by three public pension funds.

McDonald's sets ESOP financing

Forgoes first use of public debt

By Barry B. Burr

OAK BROOK, Ill. — McDonald's Corp. finally set up its ESOP without the public debt offering unveiled nearly six months ago and without investors knowing whether the ESOP will be grandfathered if Congress eliminates many of the tax benefits for the plans.

The $200 million employee stock ownership plan was financed by a negotiated placement with fewer than 10 institutional investors. The deal brought to a close efforts by McDonald's investment banker, Salomon Brothers Inc., to underwrite the first publicly traded debt offering to finance a leveraged ESOP. McDonald's ESOP will control the equivalent of less than 2% of the company's outstanding common stock.

Other stories on ESOP developments — page 35

"Our original idea was to do a standard public deal, selling in small denominations to a broad segment of the market-

Continued on page 58

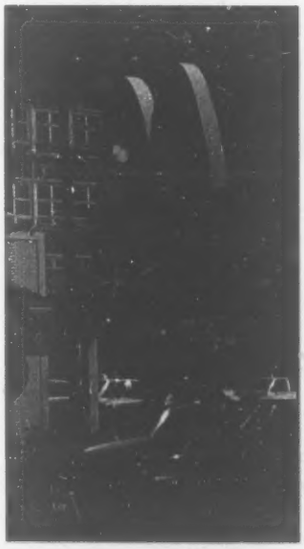


Photo by Michael A. Marcotte

McDonald's Corp. opted for private financing of its $200 million ESOP.

Program on hold

Stock lending probe delays start

By Leonard J. Hollie

At least one pension fund is delaying a move into securities lending because of a federal probe of major brokerage firms' stock lending programs.

"If the investigation had not occurred, we probably would have been participating in a stock lending program already," said T. Britton Harris, assistant treasurer of Combustion Engineering Inc., Stamford, Conn., which has $650 million in pension fund assets.

Now, he said, "we are waiting to see the results of the investigation." The fund has set a target date of Oct. 1 and intends to conduct a securities lending program through its master trustee, Manufacturers Hanover Trust Co., New York.

For other funds, however, the probe is causing little turmoil. Most comments echoed that of Barbara Fiddler, director of securities lending at the $2 billion endowment of Yale University, New Haven, Conn., who said that while the investigation will make her fund more cautious, "we don't see a need for panic now."

Yale, which has been a securities lending participant for almost 18 years, has 10% of its portfolio in securities lending.

Federal prosecutors are investigating potential theft, money laundering and kickbacks in the stock loan de-

Continued on page 62

IN

T

Ir

g

...t the wheel
...sco keeps Coldwell
...ate fund - 18

Question of balance
Economic equilibrium a fantastic medium for market - 26

Trust in the atomic age
Tax legislation might aid nuclear decommissioning funds - 31

0605266920 01P100891919 COMP
STATISTICAL REFERENCE INDEX
420 EAST-WEST HWY SU 800
MD 20814
pLZ
20814 DIGIT 5-••••••••••••••••

LATE NEWS

World Bank to unveil new bond

WASHINGTON — Hoping to attract a new group of institutional investors who buy U.S. agency debt, the World Bank is expected to unveil its innovative $1.5 billion, intermediate-term global bond offering later this month.

The bonds, part of its U.S. dollar borrowing program, are expected to be issued simultaneously in the U.S. domestic and Euromarkets with the help of 14 managers worldwide. The World Bank's bonds are intended to be traded around the clock and offer investors liquidity superior to outstanding World Bank Yankee and Eurodollar issues. The bonds are structured to resemble U.S. government-sponsored agency debt.

The World Bank borrows funds in the international capital markets and lends them to its developing member countries for specific economic reform programs.

PBGC waives payment penalty

WASHINGTON — The Pension Benefit Guaranty Corp. will waive the late payment penalty charge for 1989 premium filings that were due Sept. 15. To avoid a penalty, however, the filing must be postmarked or hand-delivered no later than Oct. 2.

The postponement stems from delays in delivering the premium forms to administrators.

Concerns over 144A continue

NEW YORK — The Securities and Exchange Commission's proposed Rule 144A liberalizing secondary market trading of private placement securities among qualified institutional investors won't be enough to lure household-name foreign issuers into the market, foreign bankers said at a conference last week.

Fernando Vera, director of Britain's Barclays Bank, told participants in the Institute for International Research conference Rule 144A "would not be a magic wand." He said pricing in the private market remains the biggest obstacle because foreign issuers still believe pricing is better in the public market. They also are wary of the SEC's disclosure requirements and running afoul of disclosure rules in their own countries.

Some participants also took issue with the rule's requirement that qualified institutions must have at least $100 million invested in securities. Linda Quinn, director of the SEC's division of corporation finance, acknowledged it was a subjective figure and said it might change.

Other bankers, traders and institutional investors expressed concern that private debt securities were favored over equity securities under the rule. Ms. Quinn said Rule 144A would be phased in over time and equity securities could be handled later.

The comment period on the proposed rule ended last week. The SEC is studying the responses and will incorporate them into the final rule, which Ms. Quinn hopes will be adopted by year end.

Funds change manager lineups

• CHEYENNE, Wyo. — The $1.3 billion Wyoming Retirement System has selected two equity managers and two fixed-income managers in an effort to spread its investments.

Hired to manage active equity accounts were Independence Investment Associates Inc., Boston, and Wyoming National Bank, Cheyenne, according to Jeff Gardner, the system's deputy director. The active fixed-income managers hired were Wolf, Webb, Burk & Campbell Inc., Philadelphia, and Western Asset Management Co., Pasadena, Calif.

While the amounts allocated to the managers had not been finalized, Mr. Gardner said it is likely Independence would receive about $50 million; Wyoming National about $20 million, and Wolf, Webb, Burk & Campbell and Western Asset each would receive between $80 million and $100 million. He said the allocation comes from a trimming of an $850 million balanced portfolio with Alliance Capital Management L.P., New York.

• CHARLESTON, W. Va. — Blue Cross/Blue Shield of West Virginia has hired IDS Trust to manage approximately $4.2 million of its 401(k) plan assets.

Officials at Blue Cross confirmed the hiring of IDS, but

Continued on page 62

DEPARTMENTS

Classified	60	Market beat	26
Datebook	52	Money movers	56
Employee benefits	51	Opinion	10
ESOPs	35	Pension Surplus Index	61
Financing	43	P&I Age indexes	59
Futures & options	53	Portfolio management	55
International	23	PROPERTY	13
Letters	10	Valuation index	58

Vol. 17, No. 20 — Pensions & Investment Age (ISSN 0273-5466) is published biweekly with a special edition in May, at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Directory deadline has passed

The deadline for entries in *Pensions & Investment Age*'s 1989 directory of investment management consulting firms has passed. If you have any questions about the profiles scheduled for the Nov. 13 issue, or if you would like to be placed on the mailing list for next year's directory, please contact Christine Philip, directory coordinator, at (312) 649-5217.

L.A. County first investor to join S&L partnership

By Steve Hemmerick

LOS ANGELES — Trustees for the $9 billion Los Angeles County Employees' Retirement Association, reasonably convinced they can make money in turning around troubled savings and loan institutions, have agreed to commit a minimum $150 million to invest in the $1.2 trillion savings and loan industry.

The trustees stopped short of actually funding the investment, however, noting their commitment is one of the first potential pension investments in a troubled industry that pension funds have known little about until now. They said they are trying to move with caution.

The commitment is to Wespar Financial Inc., a subsidiary of WSGP International Inc., a Beverly Hills investment group headed by former Secretary of the Treasury William Simon. Assets will be invested in a limited partnership that prohibits the use of debt in its acquisitions; the first investment is not expected for 18 to 24 months.

Wespar officials reportedly said they need a minimum of $400 million in contributions — although they would prefer $1 billion — and are seeking contributions from other pension funds, including the $54.5 billion California Public Employees' Retirement System, Sacramento.

Wespar is focusing on pension funds because they are among the few investors with enough capital available for investment.

Trustees of the Los Angeles County fund also considered but delayed making an investment with Blackstone Financial Management Inc., a New York investment bank also investing in savings and loans, primarily in the East.

In deciding whether to move forward on the issue, the trustees expressed confidence in Mr. Simon's group and said it was one of the key reasons they would invest in savings and loans at all.

Trustees expect to see a compound annual return of about 18% to 25% during the eight- to 12-year life of the investment. Those expectations were supported by the fund's consultant on the savings and loan industry — Pension Consulting Alliance, Glendale, Calif. — and its subcontractor, Kenneth Leventhal & Co., Los Angeles, a consulting and accounting firm considered an expert in the savings and loan field.

The consultants told the trustees one reason for the high return potential is that stiffer federal regulations will force savings and loans to consolidate, which would reduce competition and presumably result in greater operating profits.

During the next several years, analysts estimate as many as 2,000 thrift institutions will sell out or fail.

Because of expected federal assistance, Los Angeles trustees believe at worst they will receive only a "moderate" return on their savings and loan investment, which would considerably narrow the investment risk.

Before agreeing to the commitment, however, trustees sought, and received, changes in four areas of the agreement with Wespar. They were:

• The Los Angeles County fund, as a limited partner, would receive a 12% preferential return before the Simon group, as general partner, shared in the return. After that, the agreement roughly will work out to 80% for the limited partners and 20% for the general partners.

The original agreement had limited partners receiving 70%

Continued on page 61

The City of Baltimore's $1.5 billion retirement systems must divest their equity holdings in South Africa-related companies after losing a legal challenge of a city ordinance.

Divestment set

Baltimore funds lose court appeal

By Trudy Ring

BALTIMORE — The Maryland Court of Appeals has upheld a Baltimore ordinance requiring the city's pension funds to divest themselves of stocks in companies operating in South Africa.

The Baltimore Employees' Retirement Systems filed suit to challenge the ordinance almost three years ago. The Baltimore Circuit Court upheld the ordinance (*Pensions & Investment Age*, July 27, 1987).

Ernest J. Glinka, administrator of the $1.5 billion retirement systems, said trustees will discuss the ruling at their Sept. 21 meeting. He declined to say if a further appeal is likely.

"The basis on which we challenged the ordinance was to see if it was legal," he added. "We now have the highest court in Maryland saying it is legal."

In the lawsuit, pension fund officials argued the ordinance conflicted with the interstate and foreign commerce clauses of the U.S. Constitution and the foreign affairs power of the federal government; was pre-empted by federal law regarding South Africa; and impaired contracts existing between the systems and their participants and beneficiaries.

The appeals court held the city's handling of pension fund investments traditionally is something that can be regulated locally and the ordinance does not conflict with federal law. It also ruled condemnation of apartheid is consistent with national policy and the ordinance does not interfere with the federal government's foreign policy powers.

The cost of the measure, the court ruled, is so small it does not impair the contract between the retirement funds and their participants and beneficiaries. Social investment considerations do not violate the standard of

Continued on page 60

Agencies discount FASB rule

By Fred Williams

The three major credit rating agencies will not adjust ratings of companies based on changes in accounting for liabilities for retiree medical benefits.

Following an announcement by Standard & Poor's Corp., New York, that it would play down the effect of a proposed accounting rule requiring such liabilities to appear on corporate balance sheets, executives from Moody's Investors Service, New York, and Duff & Phelps Inc., Chicago, issued similar statements.

The Financial Accounting Standards Board's rule would replace pay-as-you-go accounting for retiree medical liabilities with accrual accounting in 1992.

The response to the rating agencies' decisions was mixed. Some employee benefit sources said the rating agencies might be trying to soften the blow for their clients, who pay for rating agency services. Others believe the decision to continue to concentrate on actual cash expenditures for retiree medical costs and place less emphasis on accrued liabilities displays a lack of understanding of the economics of the issues involved.

Executives at the three firms all claim to be aware of the burdens companies face for retiree medical costs and of the potentially huge liabilities that will be shown on corporate balance sheets if the FASB proposal becomes effective. Each, however, points out the difficulty in quantifying the actual liability for a company given the uncertainties of medical cost inflation, government regulations and the possibility that many plans might be amended.

At each rating agency, officials said a change in accounting proc-

Continued on page 61

PROPERTY

UPDATE

The Multi-Employer Property Trust has purchased Phase I of the Oakland Pointe Office Center.

MEPT acquires office

WASHINGTON — The Multi-Employer Property Trust, with slightly more than $600 million in assets, bought Phase I of the Oakland Pointe Office Center and agreed to pre-purchase Phase II of the project for a total of about $7.5 million.

The project is being built on a 200-acre site located on the Western outskirts of Pontiac, Mich. Phase I, a single-story, 36,460-square-foot building, is 53% pre-leased; construction on Phase II began in June.

The seller was Trammell Crow Co., developer of Oakland Pointe Office Center. Pat O'Brien is the Trammell Crow partner in charge of the project.

This is the eighth property in Oakland County for MEPT, a pooled equity real estate fund with more than 100 participants.

The fund was advised by the Washington office of Kennedy Associates Real Estate Counsel Inc.

REIT index posts gain

WASHINGTON — The NAREIT Share Price Index rose 2.08 points in July, to 100.31, the fifth consecutive month the index has shown an increase, according to the National Association of Real Estate Investment Trusts Inc., Washington.

The Equity REIT Index rose 9.07 points in July to 242.01; the Mortgage REIT Index rose 0.24 points to 32.21; and the Hybrid REIT Index fell 2.09 points to 97.3.

For the seven months ended July 31, the total return on REIT investments averaged 6.18%. During the same period, equity REITs posted an average total return of 12.2%; mortgage REITs, −3.69%; and hybrid REITs, 4.76%.

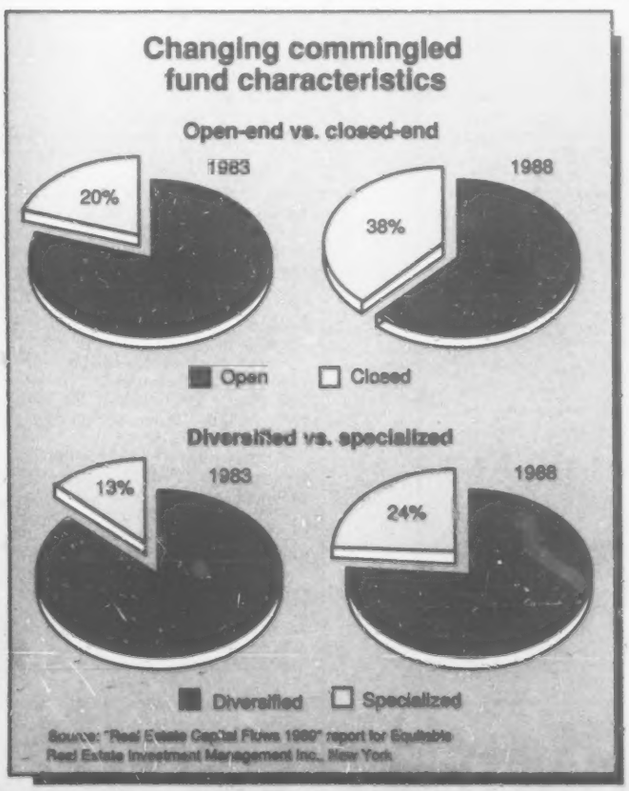
For the one-year period ended July 31, the total return on REIT shares averaged 4.09%; equity REITs, 10.4%; mortgage REITs, −3.66%; and hybrid REITs, −5.84%.

As of July 31, industry assets totaled $40.9 billion for 168 tax-qualified real estate trusts. Shareholders' equity totaled $13.4 billion; mortgage investments, $25.6 billion; and equity investments, $12.3 billion.

L.A. landmark is sold

LOS ANGELES — New York developer Harry Macklowe has purchased 818 W. Seventh St. in Los Angeles and three adjacent

Continued on page 16



Realty fund a hit

Schools put $363 million with adviser

By Steve Hemmerick

FAIRFIELD, Conn. — Some 163 educational institutions put $363 million in a new fund that invests with other real estate managers, indicating a strong desire among some institutional investors to find ways to spread smaller contributions among alternate styles of some of the most highly regarded investment firms.

The $363 million was placed with Endowment Realty Investors, a Fairfield, Conn., real estate investment trust. Investors more typically place assets directly with individual real estate advisers.

Endowment Realty Investors works like a manager of managers, picking and monitoring a mix of separate account investment styles for endowments.

The response to the first fund, which is closed to additional contributions, has been so strong that a second is being considered for 1990, said Michael [illegible]uido, a vice president with End[illegible]vment Realty Advisors Inc., which is the Fairfield, Conn., manager of the fund.

By using this approach, the educational endowments gain greater access to a mix of real estate investment styles than if they invested on their own, avoiding the problem of bad performance if one style fails or suffers from a temporary slump. In addition, because fees were negotiated with the individual firms, the endowments won't be paying more than if they had hired the managers separately.

Though investments of this nature common in venture capital, they are rare in institutional real estate.

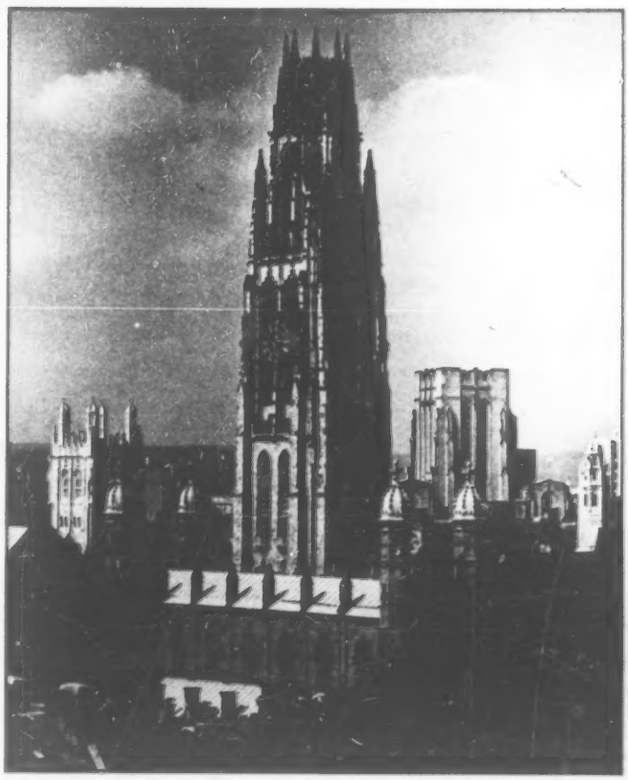
The most well known pioneer is Frank Russell Trust Co.'s Real Estate Equity Fund, begun in 1984, which invests its $388 million in assets with seven real estate advisers. The trust company is a subsidiary of Frank Russell Co., a consulting firm in Tacoma, Wash.

Another Russell subsidiary, Frank Russell Investment Co., in July launched the Real Estate Securities Fund, which will invest in a mix of securities of various real estate type companies. It has about five investors and $2 million in assets, but marketing has just begun, according to John Koza, senior vice president and managing director of U.S. real estate for the Frank Russell Co.

Like the Russell fund, the Endowment Realty Investors fund was launched with the help of a parent-like organization, in this case The Common Fund, an investment adviser to many of the nation's colleges and universities.

The manager-of-managers approach is ideal for smaller investors, but appeals to others, too.

Continued on page 16



Yale University's more than $2 billion endowment was among the 163 college funds that invested in the Endowment Realty Investors pooled fund.

Looking to the '90s

Demographics indicate office demand to grow

NEW YORK — Shifting demographics — including the aging of the population and the consequent slowdown in work force growth, along with a slowdown in the growth of women in the work force — will most significantly alter the U.S. real estate climate in the 1990s, a new report concludes.

Such shifts will "intensify demand for quality office space in key metropolitan areas" as employers compete for workers in part by offering workplace amenities, said Christopher D. Budden, president of The Yarmouth Group Inc., a New York real estate investment adviser, which published the report. Yarmouth has substantial office holdings.

Other factors the report said will shape the real estate environment of the next decade include the continued restructuring of corporate America (which will change the location and space requirements of companies) and the growing regulatory control over urban planning (which will forestall or impede development and/or will impose development fees as a positive disincentive).

"Compared to the change in the 1980s, which was stimulated in large part by legislative action and reaction, we foresee more fundamental and, consequently, long-term change in the real estate market of the 1990s," Mr. Budden said in an essay contained in the report.

As for investing, Mr. Budden predicts U.S. pension funds, lured by the need for stability and inflation hedges, will boost their real estate allocations to 9% or 10% of assets within 10 years, from what he said is 3% currently.

He said foreign institutional investors (especially Asians, Europeans, Scandinavians and Australians) will expand their U.S. real

Continued on page 14

Yarmouth's Christopher Budden expects the demand for quality office properties to heat up in the 1990s.

Survey notes ESOPs' effect

By Joel Chernoff

OAKLAND, Calif. — Contrary to belief in Congress, nearly half of the publicly held companies that recently created employee stock ownership plans increased benefits paid to employees.

In a forthcoming study of ESOPs created by public companies from January 1988 through June 1989, the National Center for Employee Ownership found 20 of 41 companies improved benefits for employees.

In addition, Corey Rosen, the center's executive director, said the study strongly suggests that 35% to 45% of the ESOPs were created primarily as takeover defenses.

Publicly held companies have jumped on the ESOP bandwagon in the wake of a February decision by the Delaware Chancery Court upholding Polaroid Corp.'s creation of an ESOP that held 14% of the company's stock. Delaware

Continued on page 37

Patterns of use of leveraged ESOPs in public firms

Company	% owned by ESOP	Takeover target?	Effect on other plans*
Acme Steel	NA	Y	P=
Advest	NA	Y	A
American Bankers	15	N	A
Applied Power	34	Y	R=
Aristech Chemical	15	Y	R=
Armstrong World	12	N	R=
Atlanta Gas & Light	NA	N	N+
Brunswick	7	Y	A+
Cabot Corp.	6	Y	S=
Capitol Federal	9	N	R=
CBI Industries	27	N	S
Charter-Crellin	20	Y	N
Citizen & Southern	5	Y	R=
Colgate-Palmolive	11	N	E
Continental Illinois	NA	Y	NA
Consolidated Freightways	19	N	A+
Courier	NA	N	NA
Cyprus Minerals	5	N	R=
DBA Systems	19	N	A=
Delta Airlines	14	Y	R
Entertainment Publications	5	N	R=
Figgie Int'l	NA	N	R=
First Federal	NA	N	R
FMC	36	Y	R
Great Lakes Bancorp	30	N	NA
Home Depot	2	N	NA
Hartmarx	15	Y	R=
J.C. Nichols	30	N	N
J.C. Penney	25	N	R=
Jeffries Group	NA	N	NA
Kansas City Southern	13	Y	A+
Key Centurion Bancshares	NA	N	R+
KMS	30	N	NA
Kraft	NA	Y	S
Kroger	33	Y	A+
Lockheed	17	Y	R=
McDonald's	72	Y	A+
McKesson	18	N	A+
Merrill Lynch	25	N	R=
Mid-State Federal	NA	N	NA
National Standard	23	N	R=
Nibco	NA	N	NA
Nordson	NA	N	N+
Nortek	10	N	A+
Northern Trust	9	N	A+
Nu Horizons	NA	N	NA
Odetics	5	N	A+
Omnicare	NA	N	A+
OMI	15	Y	N
Oryx	13	Y	R=
Polaroid	22	Y	N
PPG Industries	14	Y	R=
Procter & Gamble	20	Y	E+
Quaker Oats	10	Y	A+
Quantum Chemical	NA	Y	A+
Radiation Systems	10	Y	NA
Ralston Purina	NA	Y	R=
Riedel Industries	NA	N	NA
Scan Optics	5	N	A+
Standard Motor Products	15	N	NA
St. Paul Cos.	5	Y	A–
Thermo Electron	NA	N	A+
Tribune Co.	15	Y	R
Tyler Corp.	NA	N	NA
United Technologies	6	N	R=
Universal Foods	10	Y	NA
Whitman Corp.	15	Y	A+
Xerox	11	Y	R
Yellow Freight	6	N	A+

* A - addition to existing plans; E - Expanding an existing ESOP; N - new plan; P - partial replacement of existing plan; R - replacement of existing benefit plans; S - plan that restructured existing benefit plans. The +, – or = indicate if the plan added to, subtracted from, or was the same as existing contribution.

Benefits of leverage increase its usage

By Curtis Vosti

The traditional non-leveraged employee stock ownership plan may be going the way of the dinosaur.

With tax incentives spurring on leveraged ESOPs and the innovation of "immediate allocation" ESOPs that combine the benefits of both leveraged and unleveraged, original-formula ESOPs are less the norm.

"Three or four years ago, two-thirds of the ESOPS were non-leveraged," said David Binns, executive director of the ESOP Association, New York. "But I'd say that is now flipped. The incidence of leveraging is clearly on the rise."

Within the last year, leveraged ESOPs have blossomed so fast — even faster as Congress rushes to take away some of the blush — that their numbers are about even with non-leveraged ESOPs. However, "in terms of value, they are not even close," with the value of leveraged ESOPs much greater, said Corey Rosen, executive director of the National Center for Employee Ownership, Oakland, Calif.

According to Howard Freiman, vice president at Fidelity Management Trust Co., Boston, more than $8 billion worth of leveraged ESOPs have been done in 1989. *Pensions & Investment Age* has subsequently reported that many companies had rushed to establish or expand their own leveraged ESOPs before a deadline proposed in pending legislation that would limit the tax advantages of leveraged ESOPs.

Those familiar with the industry say tax advantages, employee benefit formulations and takeover defenses all have made leveraged and immediate allocation plans more attractive, and, therefore, have caused non-leveraged ESOPs to decline in popularity.

Mr. Binns attributes the rush into leveraged ESOPs to an "understanding of what can be done with leveraged buy-outs." In 1984, major tax breaks were passed that made leveraged ESOPs more enticing, and, two years later, legislation eliminated a tax credit that provided some of the attraction of non-leveraged ESOPs.

With the legal changes companies can, for now, deduct both the principal and interest payments on a loan used to set up the leveraged ESOP, and receive the loan at below-market rates because the lender also receives tax breaks for lending to the ESOP.

These tax advantages were one reason the Skokie, Ill.-based Brunswick Corp. decided to switch to a leveraged ESOP in the spring of 1989.

"The advantages that accrue from a leveraged ESOP are significant enough to make obsolete the old way of doing it (non-leveraged)," said Ross Stemer, director of investor relations.

Brunswick's original non-leveraged ESOP fell under laws designed to get a tax credit of up to 0.5% of payroll to buy stock for employees. The company not only did that, but in 1984 it also matched that amount out of earn-

Continued on page 37

Missed deadline could be costly

By Joel Chernoff

WASHINGTON — Olin Corp. may be caught in the web of pending legislation affecting employee stock ownership plans, a victim of not foreseeing that Congress could change the rules in midstream.

While the Stamford, Conn., chemical company had announced its plans to form an ESOP in late May, it did not have permanent financing in place until mid-June — after a cutoff date for keeping important ESOP-related tax breaks was proposed in Congress.

An early effective date could mean higher financing costs for Olin, although officials declined to reveal how much it would cost them.

Legislation proposed by Sen. Lloyd Bentsen, D-Texas, chairman of the powerful Senate Finance Committee, would eliminate the 50% exclusion of interest from taxation for loans made by a qualified lender to an ESOP.

The restrictions would affect ESOP loans created after June 6 and only where the ESOP held less than 30% of an employer's stock. Companies would have to have a written, binding commitment for loans created prior to that date to retain the partial-interest exclusion.

The fate of the bill, as well as legislation being considered by the House Ways and Means Committee, will be decided in coming weeks as Congress tries to nail down a budget-reconciliation package.

Although Olin had announced its intention of selling $100 million in convertible preferred stock to an ESOP May 25, nearly two weeks before the Senate bill's effective date, the company might lose important tax benefits because not locked up until mid-June. Only bridge financing had been arranged by June 6.

It is "questionable" under the Bentsen bill whether "the bridge loan constitutes a condition for financing," said George Nuslock, vice president-public affairs. "That's a very risky thing to depend upon."

Mr. Nuslock said Olin's ESOP did not fit any of the patterns of abuse identified by Ways and Means Committee Chairman Dan Rostenkowski, when the Illinois Democrat took the first step in proposing restrictive legislation June 6.

(The original June 6 effective date in the House bill, however, was switched to July 10 in committee maneuvering, creating one of several key distinctions between the House and Senate bills.)

Unlike some companies that had raced to put ESOPs in place as rumors spread that Congress might move to restrict tax benefits for the popular plans, "ours had been under way for eight months," Mr. Nuslock said.

Contrary to Mr. Rostenkowski's concern that many companies were taking advantage of tax-subsidized ESOP loans while not sharing any gains with employees, Mr. Nuslock said Olin's ESOP gives employees a larger benefit.

Use of convertible preferred stock will give employees a higher dividend, while the percentage of employee contributions matched by Olin will increase as the company meets corporate performance objectives. Olin performance goals for 1989 are earnings of $6 per share and a 17% return on equity.

The ESOP also will boost employee ownership to nearly 25% of Olin stock, up from 16% to 17%

For some, plans not best route

By Barry B. Burr

Even before tax legislation pending in Congress effectively killed the concept, PepsiCo Inc. decided against setting up a leveraged employee stock ownership plan — despite the seemingly compelling tax advantages enabling corporations to finance benefits at lower costs.

At the same time, two other companies — McDonald's Corp. and Unisys Corp. — have yet to establish their ESOPs. McDonald's was to set up a leveraged ESOP with an immediate allocation of $100 million in convertible preferred stock; Unisys was to set up a plan using $250 million in common stock allocated over four years. Both announced their plans in the spring.

ESOPs, as demonstrated by these companies and the many other corporations that never established them, haven't proved the universal employee-benefit financing technique their popularity might indicate.

PepsiCo executives, while dismissing ESOPs, nevertheless expressed strong support for employee ownership, believing they could better achieve that objective with a program of stock options for all employees at every pay level.

"ESOPs are done for a variety of reasons, and ownership sometimes isn't a major consideration," executives of the Purchase, N.Y.-based company said in a release.

"Some ESOPs involve an exchange of existing benefits for

Continued on page 36

Use of leverage

Continued from page 35
ings from 1983.

But at the end of 1986, with the change in tax laws encouraging the leveraged ESOPs, the 0.5% credit was no longer allowed. Though the company went ahead and contributed to its ESOP that amount out of earnings in April 1989, it set up a leveraged ESOP.

For companies not wishing to assume a large debt load, changes in tax laws in 1986 encouraged the use of immediate allocation ESOPs. These allowed a firm to borrow annually for the ESOP, thus avoiding a large one-time debt, and still write off the principal and interest, up to 15% of payroll.

Mr. Binns said he is not aware of any public companies that have recently installed non-leveraged plans, and he said those that have had them now are adding to those with the immediate allocation ESOP.

"Why should you do a strictly non-leveraged ESOP with the benefits of an immediate allocation (available)?" asks Fidelity's Mr. Freiman.

Mr. Freiman has argued that the tax advantages of leveraged ESOPs are not as significant as those of an immediate allocation ESOP (*P&I Age*, July 24).

According to Mr. Binns, while "it's anyone's guess" whether the anti-takeover effects of a leveraged ESOP are the top priority, it's definitely a significant factor influencing their use.

Other advantages of the leveraged ESOP are in the financial planning area and in value for the employee benefits dollar.

Mr. Binns points out that using a leveraged ESOP to buy a large block of stock at today's prices can help the employees when the ESOP "suspense account" distributes the stock as the debt is paid down. The alternative is to purchase stock every year, at that year's price.

"There is a greater consistency in planning with the leveraged ESOP," he said. "Non-leveraged employees are paying more in a rising stock environment."

That was part of the reasoning behind the decision by Parker-Hannifin Corp., Cleveland, to do a $70 million leveraged ESOP this spring, according to Treasurer Wallace Young.

"We did elect to increase benefits to the 401(k) plan through a modest leveraging," Mr. Young said.

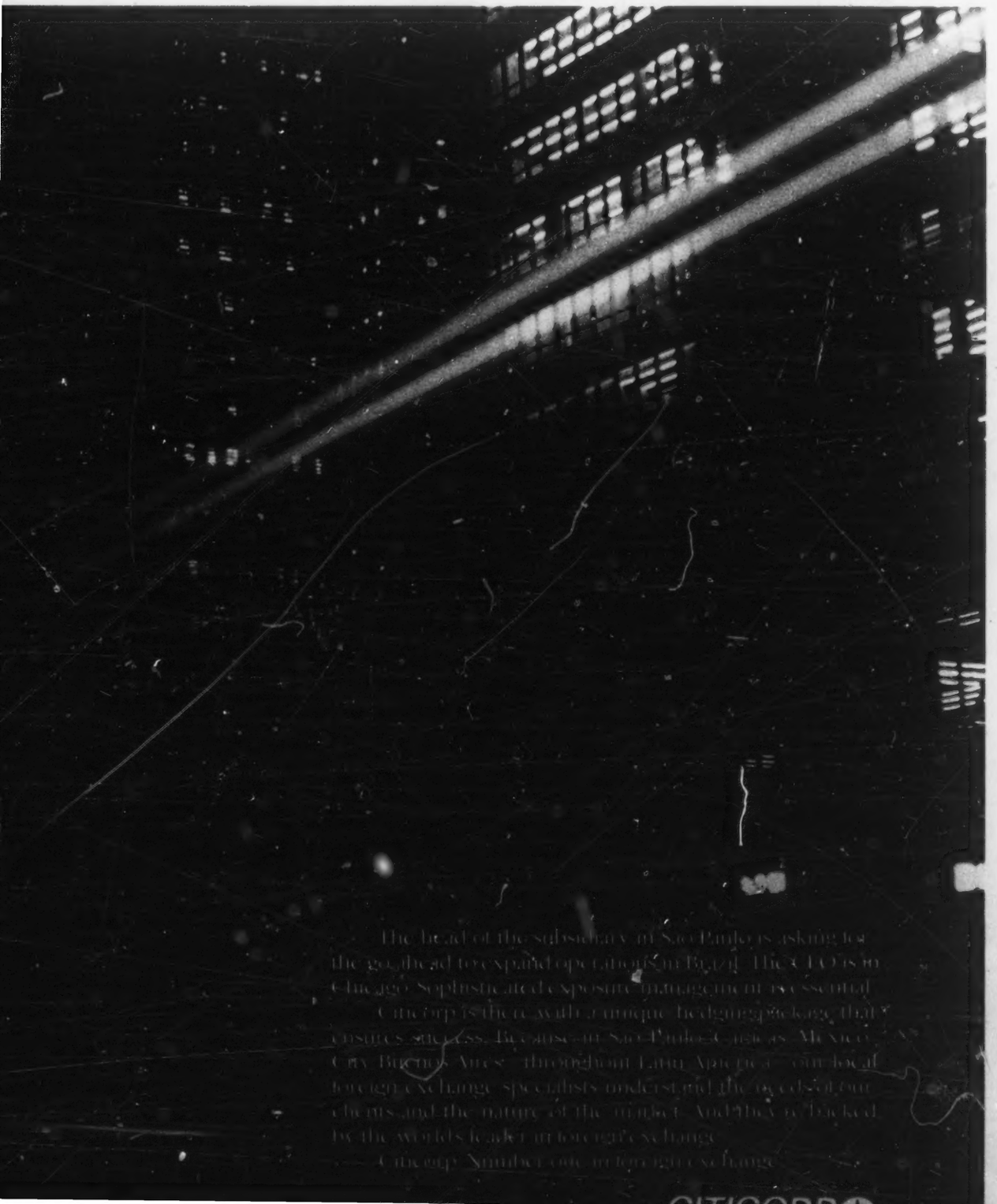
"The primary reason was to expand employee benefits."

According to Eric Raps, a consultant in employee benefits for Arthur Andersen & Co., Washington, the non-leveraged ESOP loses its luster when compared with the leveraged ESOP.

"The advantage of the leveraged ESOP, namely the below-market financing, is very attractive," he said. "The non-leveraged ESOP is just not as sexy. It doesn't do as much as far as producing cash flow."

However, Mr. Rosen said the non-leveraged ESOP is still the ESOP of choice for the majority of small private companies, even with the recent tax changes that make immediate allocation loans a preferred way for Mr. Freiman.

"It's really only an issue for public companies," Mr. Rosen said. "For most (private) ESOPs, immediate allocation loans are not available. "In the end, it's a matter of what's going to work best for each companies' financial position," he said. ■


The head of the subsidiary in Sao Paulo is asking for
the go-ahead to expand operations in Brazil. His CFO is in
Chicago. Sophisticated exposure management is essential.
Citicorp is there with a unique hedging package that
ensures success. Because in Sao Paulo, as in Mexico
City, Buenos Aires, throughout Latin America, our local
foreign exchange specialists understand the regulations,
the terms, and the nature of the market. And they're backed
by the world's leader in foreign exchange.
Citicorp. Number one in foreign exchange.
CITICORP

Effects

Continued from page 35
law requires a bidder must win at least 85% of a target company's stock or wait three years to enjoy the benefits of the merger.

The study examined 73 companies that set up ESOPs during the 18-month period. Of those, the center had adequate data for 41 of the companies on how they changed employee benefit practices.

Twenty companies used the ESOP to increase benefits for employees, while another 20 replaced other benefits on a dollar-for-dollar basis. Only the St. Paul Cos., St. Paul, Minn., reduced total compensation.

The findings are "a little surprising," Mr. Rosen said. The expectation was the ESOPs provided "straight trade-offs" for other employee benefits, he said.

Key legislators have criticized corporations' use of ESOPs to obtain tax-advantaged debt. "The proliferation of debt-financed ESOP transactions shows that many companies are borrowing to establish ESOPs merely for the sake of obtaining tax benefits without providing any increase in benefits to employees," Rep. Dan Rostenkowski, D-Ill., said in a June statement.

Mr. Rostenkowski, who chairs the House Ways and Means Committee, spurred the move to restrict ESOP tax benefits in a June 6 proposal.

Most of the ESOPs studied were add-ons to existing plans, such as 401(k) salary reduction or savings plans. Often, the ESOP was used to provide the employer matching contribution.

Where the benefit was increased, it typically was 10 cents to 30 cents for each dollar contributed by employees.

Studies by consultants previously had found about two-thirds of company contributions to 401(k) plans had been made in company stock, thus the addition of the ESOP did not greatly alter the overall asset mix of such plans, the center said.

Of the 73 companies examined in the study, 33 had been mentioned as takeover candidates. While that does not definitively prove those companies adopted ESOPs as a takeover defense, Mr. Rosen thought the data suggested takeover considerations were the primary or sole reason for 35% to 45% of the companies.

Marvin H. Greene, vice president at TPF&C, Valhalla, N.Y., said he was not surprised employers have improved benefits. "A couple of the investment bankers recommended sharing the tax savings with employees and giving up some of the gain," he said.

Top underwriters of ESOP related private placements (Jan. 1 to June 30)

Manager	Amount* ($ mils.)	No. of issues
First Boston	4,995.1	23
J.P. Morgan	2,975.0	7
Goldman, Sachs	2,489.3	6
Salomon Brothers	1,700.4	7
Lazard Freres	1,044.0	2
Bankers Trust	849.0	7
Morgan Stanley	555.0	4
Chase Manhattan	409.1	10
Merrill Lynch	375.0	2
Chemical Bank	170.4	2
Prudential-Bache Capital	100.0	1
Manufacturers Hanover	89.1	1
Northern Trust	64.3	1
First National Bank of Chicago	50.0	1
Smith Barney, Harris Upham	10.0	1

* Dollar amounts are principal amount, with full credit given to each manager. Only debt ESOP portions are included.
Source: Securities Data Co.

ESOPs to enter new era

Smaller, private deals replacing large, public ones

By Leonard J. Hollie

The face of ESOPs undoubtedly will change, but the benefit plans will remain a part of the corporate landscape.

Congressional action that likely will make large public employee stock ownership plan deals a thing of the past has made all practices and records through June obsolete, investment bankers say. These will be supplanted by a comeback of the smaller, private placement deals.

"The ESOP market today is much smaller and healthier because it is being driven by people who have a good business reason to bring employees into the company," said Jim Zukin, president of Houlihan, Lokey, Zukin & Howard inc., Los Angeles.

Mr. Zukin, who describes his company as a leading financial adviser to ESOPs, said pending legislation that would repeal the deductibility of dividends for most ESOPs would slow the activity in large, public ESOP deals.

The ESOP provisions would remove the 50% exclusion from taxes on interest paid to qualified lenders, such as banks, insurance companies and mutual funds.

Yet, the "net result of the big public deals has been to educate many people on Wall Street as to how ESOPs work and they are staying in the ESOP business," Mr. Zukin said.

"There was a pent-up demand for multi-investor (or private placement) ESOP deals, but they couldn't be made because they were being crowded out of the market by the large public deals," he said. "The current ESOP paper is drawing back into the marketplace all of the old investors because it is for highly leveraged transactions. It also has a tremendous spread because it is risky paper."

Rick Braun, a principal with Houlihan, Lokey, said non-public deals are used mainly as leveraged buy-outs. They are gaining popularity because companies get a lower interest rate on the ESOP debt and the debt is paid off in pre-tax dollars, he said.

Dick May, president of Valuemetrics Inc., Chicago, which advises ESOP trustees and also ESOP shareholders and management, said he has noticed the shift of deals to smaller companies, especially those with ESOPs between $2 million and $20 million, whose transactions will be largely unaffected by the bill.

Mr. May said the biggest beneficiaries of the new ESOP activity will be lenders. "The 1984 Income Tax Act created the 1042 tax-free rollover and the 133 interest exclusion for lenders. This caused a dramatic increase in ESOPs because lenders like the fact that they can realize increased yield with the same amount of risk."

Investment bankers, ratings companies and consultants said the kinds of companies that established ESOPs have changed dramatically since the legislation was proposed. Before, companies had a tax incentive for the plans; now, companies would be more labor-intensive and want to increase benefits offered employees.

"A lot of ESOPs will be used to fund an existing benefit, such as retirement medical expenses," said Paul Mazzilli, a principal with Morgan Stanley & Co. Inc., New York. "Companies will offer ESOPs rather than make unlimited promises on medical benefits."

Gianna Durso, project coordinator for the National Center for Employee Ownership, Oakland, Calif., said in the private sector, ESOPs provide a tax incentive for owners to use the equity they have built up in the company.

"It was at first thought the Rostenkowski bill that would eliminate low-cost capital for these deals would slow down the interest in ESOPs, but one month later, there were six deals worth about $10 million."

Mr. Mazzilli said Congress will not eliminate ESOPs, but thinks in the future there will be an increase in larger ESOPs where employees own a large portion of the company. "United Airlines is the perfect example and could be an archetype of this kind of deal in the 1990s," he said, referring to the recent effort by pilots and management to purchase the airline's parent, UAL Corp.

Mr. Zukin agrees, and said he expects to see an increase in deals where ESOPs own more than 51% of the business.

"ESOPs as an LBO transaction should benefit everyone: management, employees and outside stockholders," said M. Mark Lee, an associate with Bear, Stearns & Co. Inc., New York. "It's a way of trying to fund joint participation of labor and management through government tax breaks."

Ætna's New Annuities

What's New?...

Ætna's annuities... For our plan sponsor customers with retiring defined contribution participants...

- **Dynamically priced** - premiums change at least monthly to follow current interest rates.
- **Competitive and attractive monthly benefits** - backed by a AAA-rated company for added peace of mind.
- **Up to five free quotes per employee** - quotes which are valid for 30 days. Plan sponsors can call the **Annuity Hotline:**

1-800-274-2368

- **A free, easy-to-understand employee brochure** describing the various types of immediate annuities.

Just because annuities are 4,000 years *old* ... doesn't mean they can't be *new!*

For more information, call Christian Thwaites at (203) 636-1395.

Ætna

Ætna Life Insurance Company
151 Farmington Avenue, MC69
Hartford, CT 06156

Merger creating muscle

Mellon-McMahan union to be strong entity, execs say

By Hillary Durgin

PITTSBURCH — Executives at Mellon Bank Corp. and McMahan Real Estate Advisors Inc. expect their merged efforts to result not only in a larger, but also stronger, real estate investment firm.

San Francisco-based McMahan will be merged with Mellon's real estate investment unit, Mellon Real Estate Investment Management Corp., to create a new subsidiary, Mellon/McMahan Real Estate Advisors Inc.

The terms of the merger were not disclosed. The acquisition is subject to approval by the Office of the Comptroller of the Currency.

The new firm will have approximately $1.2 billion under management, said John McMahan president of McMahan Real Estate Advisors.

According to data compiled for *Pensions & Investment Age*'s annual directory of real estate advisers, McMahan had $630 million in total assets, of which $568 million was for U.S. institutional tax-exempt clients. Mellon Real Estate Investment Management reported $587 million in total real estate assets, of which $554 million was tax-exempt.

"I think we will be one of the few firms that can offer, on a separate account basis, a national strategy in the $5 million to $50 million range," said Mr. McMahan, who will remain with the new entity, overseeing day-to-day operations as president and chief executive officer.

Robert M. Boyles, executive vice president and head of Mellon's Trust and Investment Department, will serve as chairman of the new subsidiary.

Executives at both firms said the merger makes sense because the new subsidiary can offer real estate investment opportunities nationwide, playing off Mellon's strength in the Northeast and McMahan's in the Southwest. The new subsidiary will continue to invest primarily in small suburban business-oriented real estate, as both firms did in the past.

Mellon's existing real estate subsidiary has experienced turnover among its top management in recent years and was suffering declining market share, and was seeking to recover its position in real estate investment management.

McMahan Real Estate Advisors had been searching for a merger partner in the past year to continue growing at its current rate of $200 million a year, Mr. McMahan said.

Fifty-five percent of the newly combined subsidiary's properties lie west of the Mississippi River, and 45% are in the East, according to Thomas Butch, a Mellon spokesman. The new subsidiary's portfolio is invested 45% in offices, 35% in retail properties and 20% in industrial distribution centers and warehouses, he said.

The firm does not have any residential or hotel properties and does not intend to invest in any.

Clients said they would monitor how the merger affects the quality of asset management.

"We'll wait and see if the service is maintained at the same level," said Chuck Barron, assistant retirement administrator for the $735 million Contra Costa Employees Retirement Association, which has $62 million with McMahan. He added he has been pleased with the handling of the assets and had no reason to object to the merger.

Mellon's acquisition of McMahan Real Estate is consistent with a trend toward mergers and acquisitions in the money management field. Increasingly, foreign banks, insurance companies, private investment firms and other financial service firms have been buying asset management companies. Some Wall Street investment banks have expanded their operations, while others have sold them.

Dean Eberling, who follows asset management and brokerage stocks for Shearson Lehman Hutton Inc., said real estate advisory firms are an attractive business acquisition for financial institutions.

"It's an attractive investment for not only the fees going in and out, but also (because of) the potential of that asset as an inflation hedge," he said. ■

2 start up new firm

GREENVILLE, Del. — Charles S. Cruice and William F. D'Alonzo, formerly portfolio managers with Friess Associates Inc., Wilmington, have formed their own investment management firm, Greenville Capital Management Inc.

The two intend to follow an investment strategy that is "basically the same" as Friess' approach, with an emphasis on emerging growth companies, Mr. Cruice said.

"GCM manages equity portfolios for conservative investors who want higher growth than blue-chip securities provide, at minimal risk," Mr. Cruice said.

GCM plans to continue Friess' generalist approach toward investment selection, which is based on in-house fundamental research through direct industry contact.

The 6-week-old firm has seven clients to date, with accounts totaling "close to $5 million," of which almost $2 million is tax exempt, Mr. Cruice said.

GCM's accounts are new, and the firm does not intend to solicit any clients from Friess Associates, Mr. Cruice said. The firm plans to distinguish itself from Friess Associates by investing in smaller companies with sales of "$12 million on up," he added.

Friess Associates manages $708 million in assets for 83 clients, according to Clarke Adams, an investment manager at Friess. Clients must have at least $25 million in revenue to be eligible to invest in the Brandywine Fund, a publicly traded mutual fund Friess manages.

If growth at GCM meets their expectations, Messrs. Cruice and D'Alonzo plan to be managing $30 million in accounts within a year, which represents 10% of their ultimate target of $300 million in five years. ■

PIPER figures updated

Editor's note: *The following investment managers missed the deadline for inclusion in the Aug. 24 or Sept. 4 listings for Pensions & Investments' Performance Evaluation Report for periods ended June 30. All figures, except the international returns, are for funds that would have placed in the top quartile of their universe. This information was provided by Robin Stadler of Rogers, Casey & Associates, which compiles PIPER. All figures for periods of more than one year are compound annualized.*

American Security Bank's equity fund returned a compound annualized 12.9% and the equity income fund returned 13.9% for the three-year period. The bond fund returned 7.7% for the quarter, 12.5% for the year, 8.9% for the three-year, 16.1% for the five-year and 12.8% for the 10-year periods.

The equity fund of **Associated Bank** of Neenah, Wis., returned 24.6% for the year and 22.2% for the five years. The special equity income fund returned 41.3% for the year, 15.8% for the three years and 24.4% for the five years. The Worldwide fund returned 2.6% for the quarter, 18.4% for the year and 13.2% for the three-year period.

Chancellor Capital Management's Index Plus fund returned 9.7% for the quarter, 20.2% for the one-year and 20.9% for the five-year periods. The Multifact fund returned 22% for the five-year period.

CoreStates Investment Adviser's equity fund returned 9.4% for the quarter and 17.9% for the 10-year period. Its bond fund returned 8% for the quarter, 13% for the year and 8.8% for the three-year period.

First Kentucky Trust Co.'s equity fund retirement trust returned 9.3% for the quarter. The bond fund returned 7.7% for the quarter, 13.4% for the year, and 9.6%, 15.3% and 12.7%, respectively, for three-, five- 10-year periods.

Metropolitan Life Insurance Co.'s equity Separate Account 40 returned 11.4% and 23.2% for the quarter and year, respectively. The Separate Account 41 bond fund returned 14.7% for the five-year period.

Society National Bank's fixed-income fund returned 9%, 16.2% and 11.6% for the three-, five and 10-year periods, respectively. Society National's special equity Central Value fund returned 15.8% for the three-year period; the special equity Earnings Momentum fund returned 10.3% for the quarter; and its Ohio Regional Equity fund returned 13.6% for the three-year and 19% for the five-year period.

Trust Services of America's equity fund returned 20.3% for the five years, while the bond fund returned 7.6% for the quarter, 14.7% for the year, 10.1% for the three years, 16.6% for the five years and 11.9% for the 10 years. ■

Environmental

Continued from page 1

include corporate policies that affect the environment represents an expansion of the growing institutional activism.

Environmental concerns mounted worldwide after the Valdez spill garnered headlines everywhere. At that time, the New York City pension fund overseen by Comptroller Harrison Goldin threatened to cast the system's 6 million votes at Exxon's then-upcoming annual meeting against the board of directors if the board didn't take responsibility for the spill and speed up the cleanup (*P&I Age*, April 17).

The pension fund also asked for, and since has won, the appointment of a director to represent environmental interests, although some investors questioned whether marine scientist John Steele was the best choice.

In June, Mr. Goldin and Mr. Davis wrote six major oil and chemical companies in which their respective funds owned significant stock and asked the chief executives to appoint an environmentalist to their boards and create a public issues committee to audit company environmental and worker health and safety issues.

Corp., Pennzoil Co. and Tenneco Inc. — said they would consider the ideas. Many of the ideas contained in the letter were woven into the Valdez Principles, Mr. Davis said.

The Valdez Principles include requirements for companies to appoint environmentalists to their boards.

The first time an institutional investor pressed for selection of a board member to represent certain interests was earlier this year in the case of Texaco Inc. A group of institutional investors led by the California employees' system sought and won the election of a director whom they consider pro-shareholder. New York University President John Brademus was selected from a list of approved potential directors (*P&I Age*, Feb. 6).

At the moment, the principles are little more than a general prescription for being a good corporate environmentalist. Not many companies or other institutional investors have had the chance to analyze the code or formulate a response.

The 10 principles stress prevention of accidents and protection of the biosphere, conservation and ardous materials.

They also set goals of efficient energy usage, on-the-job safety and provide for reasonable levels of damage compensation, environmental disclosure, input from environmental interests and accountability.

But the pension funds and CERES hope to invigorate the code of conduct with a still-to-be-developed performance yardstick to measure responsible corporate environmental behavior. Mr. Davis, however, said perhaps companies would comply with the principles in different ways, rather than making everyone conform to one measurement.

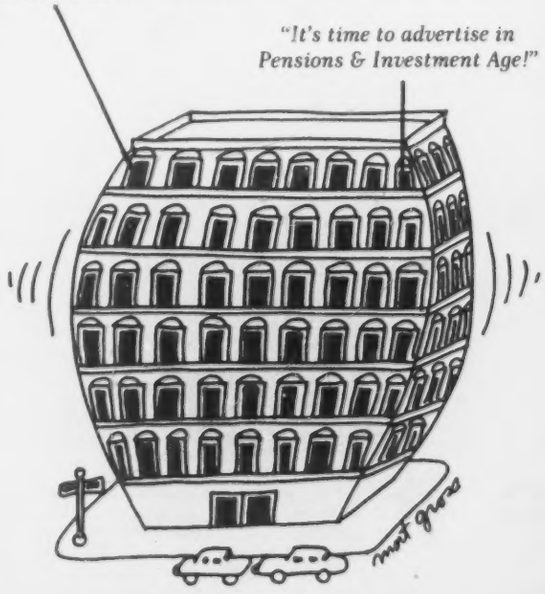
Supporters of the Valdez Principles also plan to call on or write dozens of companies, asking them to volunteer to adopt the principles.

They also will look for institutional investors to sponsor proxy resolutions on the principles so shareholders can vote on them during the 1990 annual meeting season.

In other news on the social investing front, the Community Capital Bank, a bank being organized with the help of the Social Investment Forum, expects to launch a public stock offering soon. The bank will invest in low-income and moderate-priced housing and small businesses in

"They didn't know that we had grown large enough to handle their account..."

"It's time to advertise in Pensions & Investment Age!"



PENSIONS & InvestmentAge

C2710-2

© Entire contents copyright 1989 by Crain Communications Inc. All rights reserved.

PENSIONS & Investment Age

October 2, 1989

The newspaper of corporate and institutional investing

$5 an issue $110 a year

Joint-trustee rule rejected

By Joel Chernoff

WASHINGTON — In a surprise victory for business, the U.S. House of Representatives rejected a move to give employees an equal voice with management in the investment and administration of private retirement plans.

Eighty-five Democrats helped give a resounding victory to Republican efforts to knock out the so-called Visclosky amendment from the House budget reconciliation bill, H.R. 3299.

The amendment, rejected 250-173, would have required creation of joint boards of trustees to oversee single-employer defined benefit and defined contribution plans, similar to those that exist for multiemployer plans, and would have given the Labor Department the authority to supervise elections of trustees.

The amendment, sponsored by Rep. Peter Visclosky, D-Ind., stemmed from frustration over the use of pension funds in takeovers and leveraged buy-outs, had been portrayed as a test of management and labor relations, but the importance of the pension issues took hold as the problem came to a head.

In a rare display of unity and lobbying force on a pension issue, business forces mounted a major effort to kill the amendment. Businessmen ranging from chief executive officers of Fortune 100 companies to small business groups complained to legislators about the proposal.

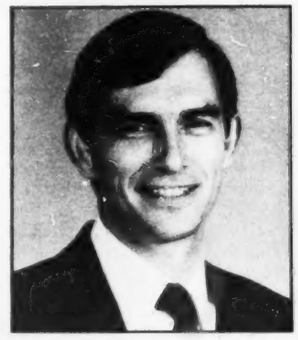
The unexpected Sept. 27 victory finally gave employers something to cheer about, after years of seeing increasingly restrictive pension rules.

"I did not think it was going to happen until I saw the votes coming in," said Mark Ugoretz, executive director of the ERISA Industry Committee, a Washington-based lobbying group that participates in a coalition to block pension provisions in the budget-reconciliation bills.

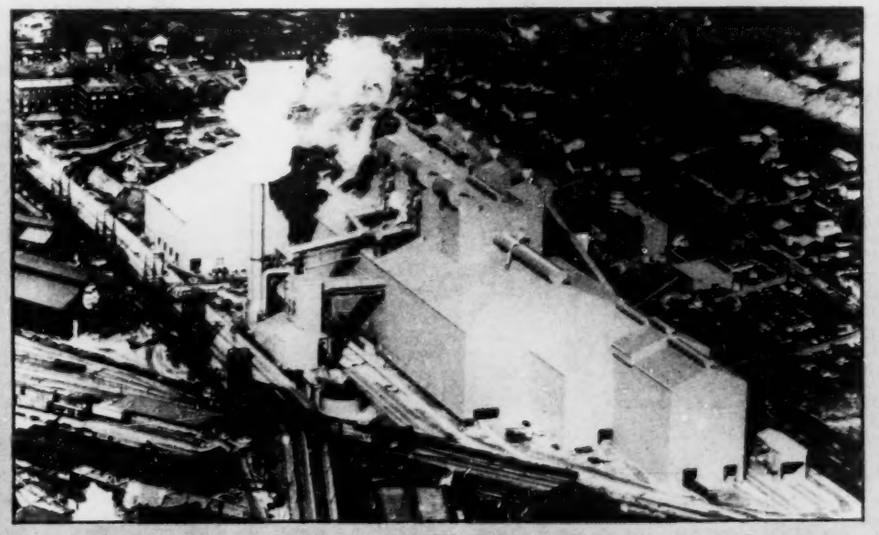
"It just goes to show that when members of Congress vote on a benefits issue, standing on its own, they understand the complexities" involved, said Jim Klein, deputy executive director of the Association of Private Pension and Welfare Plans, Washington.

Rep. Marge Roukema, R-N.J., who led the fight on the Hill to defeat the Visclosky amendment, said, "There were a good number of people who realized what folly it would be

Continued on page 71



Peter Visclosky's effort to give workers a voice in pension decisions was defeated.



Analysts say the positive relationship between management at Weirton Steel and its employee-owners will help greatly in the ongoing contract negotiations.

New test at Weirton

Contract poses another ESOP hurdle

By Marcia Parker

WEIRTON, W.Va. — Weirton Steel Corp. is facing another critical test of the increasingly popular, but still unproven, practice of employee ownership.

The current labor contract between the International Steelworkers Union and Weirton — an ailing steel division when it was acquired by an employee stock ownership plan nearly five years ago and since hailed as an ESOP success story — expired Sept. 25; the contract has been extended while talks continue. Analysts who follow the steel company, which went public in June, say its relationship with its employee-owners is positive and they expect negotiations to go smoothly.

Late last week, the company and the union said they were making steady progress

Continued on page 70

Firms vent ire on FASB rules

By Fred Williams

NORWALK, Conn. — The Financial Accounting Standards Board can expect its collective ears to be ringing after hearings on its proposal to replace pay-as-you-go accounting with accrual accounting for retiree health benefits, judging from the comment letters submitted on the issue.

Hearings on the FASB exposure draft are scheduled Oct. 10-12 in New York and Nov. 2-3 in Washington.

"The hearings are going to be thermonuclear war," said Harry Don, consulting actuary with The Wyatt Co., Cleveland. "You have a lot of corporate finance people who are paid based on how the bottom line looks, and this is going to affect the bottom line."

Most of the 425 comment letters submitted to the FASB agree, in theory, with the principle of accruing post-retirement medical liabilities. By the same token, most of the letters disagree with some or most of the methods and assumptions used by the FASB in its proposal.

In particular, many companies differ with the FASB over such issues as the attribution period to be used, the use of health care cost trends, the discount rate to be applied and the transition period.

The deadline for written comments was Aug. 14. Representatives of many of the companies submitting written comments also will testify during the FASB hearings.

A breakdown of the letters indicates electric and gas utility companies were heavily represented with a total of 49 comment letters, followed by oil and gas companies with 31. The three major automakers submitted comments, as did six regional telephone operating companies and their former parent, American Telephone & Telegraph Co. Other industry groups represented were public accounting firms, 24; insurance companies, 13; trade associations, 12; metals companies, 10; drug companies, 10; chemical companies, seven; and telecommunications companies, six. Fourteen actuarial firms and 24 public accounting firms submitted written comments.

While the majority of the comments were critical of certain aspects of the FASB proposal, they generally were non-critical of the FASB's objectives of moving to accrual accounting and treating re-

Continued on page 70

INSIDE

A nat... Wildern... untame...

...gh-tech ...but gentle on ... 13

Banking on the odds
Despite Glass-Steagall rules, banks enter mutual funds? - 17

Out of the fast lane
Japanese spending more on real estate than U.S. funds - 23

0605266920 01P100892O COMP
STATISTICAL REFERENCE INDEX
4520 EAST-WEST HWY SU 800
BETHESDA MD 20814
DNZ
000000000005-DIGIT 20814